GSA

CHAPTER 9:

Renewal Options

1. Overview

A renewal option allows the Government to continue a lease upon specified terms and conditions, including lease term and rent. Evaluated lease renewal options allow the Government to continue occupancy for an additional period without conducting a competitive procurement.

Renewal options can be valuable assets in times of increasing market rents or when increased demand results in limited vacancies. The right to renew must be provided in the lease.

This chapter outlines the required actions the Leasing Specialist or Lease Contracting Officer must take to obtain, evaluate, and exercise a renewal option.

2. Renewal Option Definition

a. Definition

An option is a unilateral right in a contract by which, for a specified time, the Government may elect to purchase additional supplies or services called for by the contract, or may elect to extend the term of the contract. General Services Administration (GSA) leases may contain options called "renewal options," which provide the following:

- A unilateral right for the Government to extend the contract;
- A specified term for which the contract is renewed (usually defined in years);
- A specified price at which the contract is renewed; and
- A specified time period to exercise the option.

Timely Exercise of Option

Once the time period for exercising an option has passed, the option is no longer viable.

Renewal options are frequently used in the private industry as a way of encouraging existing tenants to remain in the current space without requiring the parties to enter into a lengthy, protracted renegotiation process.

Lease renewal options are especially valuable to the Government when they have been evaluated and included in the lease and there is a continuing need for the space. GSA may include renewal options in leases when doing so is considered in the Government's best interest.

As noted above, the Leasing Specialist or Lease Contracting Officer must provide the lessor written notice, usually 90 to 180 days before term expiration, to exercise a renewal option. If the Government fails to timely exercise an option, the right will be lost.

Caution: Prospectus-Level Options

If the net annual rent for the option period exceeds the prospectus threshold and the option was not covered by an earlier prospectus, matching prospectus resolutions must be received before executing the options. To exercise options for prospectus-level leases, see Desk Guide Chapter 11, Prospectus-Level Leases, and in all cases, consult with the Capital Allocation Division.

b. Difference Between Evaluated and Unevaluated Options

Renewal options fall into two categories: evaluated and unevaluated, and the procedures for exercising these options are fundamentally different, depending upon which type of option exists under the lease contract. Competition is the key to understanding the differences. Evaluated options are competed in the original procurement. Unevaluated options are not part of the original competition, and competitive procedures must be followed before an unevaluated option is exercised.

Evaluated Option

An evaluated option exists when the solicitation for the original competitive procurement required a renewal option as part of the offer submission, and the option was considered in the price evaluation for the lease award. Evaluation of the option must be clearly documented in the original lease project file's price negotiation memorandum (PNM).

Written notice to the lessor of the exercise of the option is typically set at 90 to 180 days before term expiration, but will vary from lease to lease.

If an on option was required in the original procurement, it must have been evaluated for all offerors as part of the present value analysis (PVA) to have become a part of the lease.

Unevaluated Option

An unevaluated option is a renewal option that exists in the lease, but was not required under the solicitation and was not considered in the price evaluation for the lease award.

What to Do if Offered an Unrequested Renewal Option

- Attempt to negotiate a better price.
- Do not include the option in the PVA.
- Do not include the option in the evaluation and selection of the awardee.
- Clearly state in the PNM that the option was not included in the PVA.
- Include the option in the scoring calculation if award is recommended to that offeror.
- Include the option in the lease if the rate is favorable.

3. Steps for Exercising an Evaluated Option

IMPORTANT: The Leasing Specialist or Lease Contracting Officer must be aware of the required notification period to exercise the option as established under the lease and allow sufficient time to complete the following steps before providing the required notice to the lessor. This is especially crucial if prospectus approval is required to exercise the option.

a. Confirm Continuing Need

The Leasing Specialist must confirm the client agency's continuing need for space and whether any additional improvements, alterations, or upgrades are needed. The Leasing Specialist must also confirm whether cyclical paint and carpet replacement are due under the lease. If agency space revisions or improvements are needed beyond those required under the lease, the Leasing Specialist must obtain a reimbursable work authorization from the client agency to cover those costs.

b. Confirm Prior Evaluation

To confirm whether the option was evaluated, the Leasing Specialist must review the original lease file to determine whether offerors were required to submit a renewal option and whether the option was included under the original present value analysis of offers. The PNM is a good place to confirm information. If the PNM is silent on this, or if there are no PVA spreadsheets in the file indicating the renewal rate, the Leasing Specialist must presume that the option was not evaluated.

c. Consider Past Performance

The Leasing Specialist must confirm that the lessor has performed acceptably during the initial term of the lease and that there are no outstanding lease administration issues. The field office and tenant satisfaction surveys are good resources for this verification. The Leasing Specialist must check the Inventory Reporting Information System database to confirm that there are no outstanding fire safety deficiencies in the current space and contact the Federal Protective Service to confirm the security level and any security concerns with the present location.

The Leasing Specialist must also check the Central Contractor Registration (CCR) to determine whether registrations are current and review the Excluded Parties Listing System (EPLS) to confirm that the lessor has not been placed on the debarred bidders list.

d. Document National Environmental Policy Act Compliance

Automatic Categorical Exclusion

The PBS NEPA Desk Guide provides that National Environmental Policy Act (NEPA) compliance for the exercise of renewal options is to be accomplished by an automatic Categorical Exclusion (CATEX) and does not require completion of a checklist or an environmental assessment.

Floodplain Check

Before exercising the option, the Leasing Specialist must perform a floodplain check similar to that described in Desk Guide chapter 2, part 2, paragraph 3, Prepare for Market Survey. If the current location is within the 100-year floodplain (or 500-year floodplain for a critical action), then the option must not be exercised unless it is determined that there is no practicable alternative and that the eight-step process has been followed.

e. Determine Scoring Classification

If a lease agreement contains an evaluated option to renew that can be exercised without further congressional action (prospectus), it is presumed that the option will be exercised. The option should have been included in the original scoring analysis for the lease. The Leasing Specialist must check the lease file to determine if the option was scored.

For example, if an approved prospectus stipulates a term of 20 years and the proposed lease deal is structured as 10 years firm with two 5-year options, the 90-percent scoring calculation must reflect a 20-year lease term.

However, if a lease has an approved prospectus for a term of 10 years, but the lessor offers a 10-year firm lease with two 5-year options, the 90-percent scoring calculation needs to reflect only a 10-year lease term. The two 5-year options cannot be exercised without a new prospectus, assuming that they are above the prospectus threshold, and therefore the options do not need to be included in the calculation at the time of the analysis.

All options that are included in the lease agreement for leases below the statutory prospectus level that do not require prospectus approval to exercise must be included in the lease term for the 90-percent scoring calculation. If such options are not factored into the base lease's original 90-percent scoring calculation, the scoring requirements as defined in Appendix F must be applied before an option can be exercised.

f. Do Not Advertise

Per GSAM 517.207, there is no requirement to advertise (synopsize) an evaluated renewal option before exercising it, regardless of square footage involved.

g. Perform Market Analysis

The Lease Contracting Officer must review and document current market information to determine whether the rent rate is fair and reasonable. The option rate must be compared with prevailing rent rates for comparable space in the same market. The standard full market survey process involving touring all available properties, filling out market survey forms, and preparing the market survey report is not required.

If the rates are determined to be above-market based on the market analysis, then the option must not be exercised unless the Contracting Officer can determine the price to be fair and reasonable through some other means. If the option is not exercised, the Lease Contracting Officer may either compete the requirement or seek a succeeding lease.

h. Make Fair and Reasonable Price Determination

- The Lease Contracting Officer must establish that:
  - Fulfilling the Government's requirement, through exercise of the option presents the best value considering price and other factors.
  - The renewal price is competitive with market rates based on a market analysis and other applicable considerations indicating that the renewal price is fair and reasonable with prevailing rent rates for comparable space.

    - Funds are available.
    - The requirement covered by the option fulfills an existing Government need.

- The Lease Contracting Officer must document the contract file with a written determination that the option is exercised per the terms of the option and conforms to the procedural requirements for exercising the option.

i. Prepare Occupancy Agreement

The Leasing Specialist must prepare and transmit to the agency a new version of the existing Occupancy Agreement (OA) reflecting the rates for the option period. A signed OA is required before exercising the option.

j. Prepare Acquisition Plan

Leasing Specialists must prepare and process acquisition plans before executing renewal options.

k. Other than Full and Open Competition

A Justification for Other than Full and Open Competition (Justification) is not required because the option was competed as part of the initial procurement.

l. Confirm Funds Availability

The Lease Contracting Officer must confirm that Budget Activity 53 leasing funds are available by obtaining a prevalidation of funds from the budget office.

m. Provide Notice to Lessor

A renewal option provided for in a lease contract represents a unilateral right of the Government, meaning that the lessor's agreement or signature is not necessary to exercise and effect the option. However, it is critical that the Government provide written notice to the lessor exercising the option. This written notice must be timely according to the terms of the lease for the option terms to be enforceable. It is good practice to send renewal notices via certified mail, return receipt requested, or through an overnight delivery service.

Along with the notice, the Lease Contracting Officer must include a Lease Amendment, to be signed by both the lessor and Lease Contracting Officer, codifying the extended lease term and the new annual rent. A Lease Amendment is administrative in nature and not necessary for the renewal to take effect but is necessary as a record of the contract action and for Rent Bill Management (RBM) and payment processes. Timely written notification is sufficient to exercise an option.

n. Process the Action

Process the lease payment and client billing as outlined in Desk Guide chapter 2, part 8, paragraph 3.

o. Distribute Lease Amendment

The Leasing Specialist must place the original executed Lease Amendment in the lease file, scan into eLease, and provide copies to local and headquarters representatives of the client agency, the GSA field office, Federal Protective Service (FPS), and other team members so that they can provide any new alterations and continue providing security, supporting services, and utility contracts.

4. Steps for Exercising an Unevaluated Option

The process for executing an **unevaluated** renewal option is similar to the succeeding lease process in Desk Guide Chapter 5, Succeeding Lease, Superseding Lease, because either full and open competition or a Justification is required to continue occupancy.

An advertisement in FedBizOpps, a cost benefit analysis, and a Justification are required for unevaluated options, in addition to all of the steps detailed above in paragraph 3 for evaluated options.

a. Advertisement (Federal Business Opportunities Synopsis)

All unevaluated options over 10,000 ANSI-BOMA Office Area square feet must be advertised before exercising the option. Depending on the procurement approach, such advertisements may be written either as a notice of intent (for an other-than-full-and-open procurement) or as a "sources sought" (for a competitive procurement) to provide adequate transparency to the market.

b. Cost – Benefit Analysis

Leasing Specialists must follow the process, as applicable, in Desk Guide chapter 5, paragraph 1g, Cost-Benefit Analysis.

c. Other than Full and Open Competition

A Justification is required before negotiating and awarding an unevaluated option. (See GSAM 570.402 and Desk Guide chapter 5). The Justification must follow the criteria used to justify a sole source succeeding lease, including the costs and benefits of remaining at the current location compared to pursuing a competitive procurement.